SPECIAL REPORT BY THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

September 30, 1987

September 30, 1987.

To the Members of the Legislative Assembly

Pursuant to Section 13 of The Provincial Auditor Act, I submit to the Legislative Assembly this special report.

Respectfully submitted,

W. G. Lutz, F.C.A.,
Provincial Auditor.

/sw

SPECIAL REPORT BY THE PROVINCIAL AUDITOR TO THE LEGISLATIVE ASSEMBLY

September 30, 1987

EVENTS LEADING UP TO THIS REPORT

1.00 Because I had not been consulted, I stated in my 1986 Annual Report that I would make a Special Report to the Legislative Assembly if, in my opinion, the action of the executive government to privatize the audits of Crown Corporations would make the executive government less accountable for its administration of public money.

1.01 The following are the events regarding consultation as it relates to Bill 41. Copies of all relevant correspondence are contained in Appendix I to this report.

i) January 14, 1987 - letter from the Honourable Minister of Finance advising that his officials would meet with me to discuss legislation.

ii) January 22, 1987 - my letter to the Honourable Minister of Finance advising that the Minister's officials should contact me when they were ready to discuss proposed legislation.

iii) February 19, 1987 - my letter to the Honourable Minister of Finance providing my views on accountability and stating that I had not heard from his officials.

iv) April 3, 1987 - I met with the Acting Deputy Minister of Finance. He advised me that the government was considering amendments to my supervisory role with regard to the audits of Crown corporations audited by private sector auditors. He also advised that draft legislation might be available during the week of May 11, 1987 and that the selection process might be completed by June 1, 1987.

v) April 9, 1987 - letter from Crown Management Board advising which audits were to be privatized.

vi) April 13, 1987 - my letter to Acting Deputy Minister of Finance again setting out my views on accountability.

vii) June 30, 1987 - I met with the Acting Deputy Minister of Finance and the President of Crown Management Board. These officials did not have any proposed legislation to show me but requested my views on proposed legislation. I provided my views on my supervisory role as it related to accountability. I also advised that it did not matter what I wanted in legislation but rather what the Members of the Legislative Assembly wanted.

viii) I heard nothing more regarding proposed legislation until I received a letter from the Acting Deputy Minister of Finance on September 18, 1987 and until I obtained a copy of the Bill after it was tabled in the Legislative Assembly.

1.02 In summary, with regard to consultation, I wish to point out that at no time was I shown any draft legislation or any specifics on proposed legislative changes. I also wish to state that at no time did I choose not to take advantage of any opportunity to meet with officials to discuss proposed changes to The Provincial Auditor Act.

REPORT ON THE AMENDMENTS CONTAINED IN THE BILL

1.03 I have considered Bill 41, being An Act to amend The Provincial Auditor Act, as it relates to accountability.

1.04 Section 11 of The Interpretation Act reads:

> *"11. Every Act and every regulation and every provision thereof shall be deemed remedial, and shall receive such fair, large and liberal construction and interpretation as best ensures the attainment of the object of the act, regulation or provision."*

1.05 It is my opinion that the object of The Provincial Auditor Act is to create an officer of the Legislative Assembly, independent of the executive government, who will audit all public money administered by the executive government in order to report to the Legislative Assembly when the actions of the executive government run contrary to the expressed wishes of the Legislative Assembly.

1.06 My interpretation of Bill 41 is as follows:

(i) I continue to be the officer of the Legislative Assembly responsible, as primary auditor, to audit all public money administered by the Government of Saskatchewan, including that public money administered by Crown corporations.

(ii) The examination requirements relating to the administration of public money are unchanged.

(iii) As the officer of the Legislative Assembly responsible to audit the Government of Saskatchewan, I will continue to have the responsibility to ensure that an appointed auditor will conduct the appropriate examination to enable me to report to the Legislative Assembly.

(iv) I will continue to follow generally accepted auditing standards as prescribed by the Canadian Institute of Chartered Accountants where applicable and where not specifically prescribed I will continue to be guided by those standards.

(v) As these standards apply to reliance on another auditor, they include the communication of my requirements to an appointed auditor before the audit is conducted to ensure that when his work is complete I should be in a position to rely upon his opinions, once I have conducted such other procedures as I deem necessary to justify such reliance.

(vi) Where there is an appointed auditor I will continue to be entitled to require and receive from employees of Crown agencies and Crown controlled corporations or other persons any information, report or explanation that I consider necessary to report with confidence to the Legislative Assembly, without invoking section 11.1(2) of the Act, as amended, and thereby incurring unnecessary expense.

(vii) As primary auditor of the Government of Saskatchewan I continue to have supervisory responsibility for reporting on the financial statements of Crown agencies and Crown controlled corporations audited by an appointed auditor, notwithstanding the repeal of subsection 11(6).

1.07 If my interpretation of Bill 41 is in accordance with the intention of the Legislature when it enacts these amendments, then it is my opinion that the amendments contained in this Bill will not affect the accountability of the executive government to the Legislative Assembly with the proviso that without a first hand knowledge of the financial transactions of all Crown corporations, which represent a substantial amount of all public money that is administered by the Government of Saskatchewan, my ability to report with confidence to the Legislative Assembly at some future date may be affected.

1.08 If my interpretation of the Amendments to The Provincial Auditor Act are not in accordance with the intention of the Legislature, then it is my opinion that the accountability of the executive government to the Legislative Assembly will be diminished.

1.09 I hold this view because private sector auditors are appointed by the executive government and enjoy no security of tenure. On the other hand, the Provincial Auditor is an officer of the Legislative Assembly who serves only the interests of and is answerable only to the Legislative Assembly. Independence in the reporting function must not only be maintained but must be seen to be maintained.

INTERFERENCE IN THE EFFECTIVE OPERATION OF THE OFFICE OF THE PROVINCIAL AUDITOR

1.10 Given my interpretation of Bill 41, I still have a concern regarding accountability which is not addressed therein. This concern arises because of the conflict between the scope of my responsibilities in the Act, as I interpret it, and the ability of the executive government to limit through the Estimates what I can do.

1.11 In my 1986 annual report I reported that any attempt, by the executive government to limit, through budgetary control, the extent and nature of the inquiries that I deem necessary to carry out my duties under The Provincial Auditor Act would represent a serious attack on the independence of my office, as it would limit my ability to report with confidence to the Legislative Assembly.

1.12 When I submitted my original budget for 1987/88, in February 1987, to the executive government I advised that I needed funding of $3.620 Million to complete all of my work and maintain the timeliness of my annual report. This request for funds amounts to an approximate 1% increase over my funding level for 1983 when I assumed management of my office. During this same period budgetary spending through the Consolidated and Saskatchewan Heritage Funds increased by approximately 29%.

1.13 On May 21, 1987, I wrote to the Department of Finance and requested information regarding the funding for my office so that I could plan the general business of my office.

1.14 On May 26, 1987, I received a request from the Department of Finance to submit, by May 29, a revised budget using two scenarios: (1) privatization of the audits of 18 Crown Corporations with full supervisory responsibility; and, (2) privatization of the audits of 18 Crown Corporations with no supervisory responsibility.

1.15 On June 24, 1987, I received a copy of a Treasury Board Minute from the Acting Deputy Minister of Finance that indicated that I had been provided funding for the scenario of privatization of the audit of all Crown corporations with no supervisory responsibility. The Minute also contained reference to the government policy to privatize audits in instances of demonstrated cost effectiveness.

1.16 In July, 1987 I took action to comply with the expressed intent of the government and reduced my staff to structure my office for no future supervisory role.

1.17 On November 27, 1986, I made a Special Report to the Legislative Assembly regarding interference in my office, which is reported in Appendix II.

1.18 If my interpretation of Bill 41, that effective supervisory responsibilities continue to be assigned to me, and the executive government based their Estimates on "no supervisory responsibility", in accordance with their expressed intent, this constitutes, in my opinion, interference in the effective operation of my office, through the budgetary process, resulting in serious curtailment of my ability to report to this Assembly as required.

1.19 In order to preclude this type of interference in the effective operation of my office and to eliminate any perception that this may be the case, I recommend that, while Bill 41 is before the Legislative Assembly, additional amendments be made to attain the object of The Provincial Auditor Act as set out in paragraph 1.05 by bringing the budgetary process for my office out of the hands of the executive government and into the hands of those to whom I am responsible, this Assembly.

1.20 In my 1986 annual report I recommended that the Estimates for my office be considered by the Standing Committee on Public Accounts. On September 15, 1987 the Standing Committee on Public Accounts rejected my recommendation. Therefore, consistent with the review mechanism established concerning the Estimates for three other officers of the Legislative Assembly, I recommend that my Estimates be reviewed by the Board of Internal Economy and tabled by the Speaker in the House. Appendix IV contains my suggested amendments to attain this objective.

1.21 I include a copy of relevant correspondence related to the Estimates for my office for 1987/88 as Appendix III.

1.22 I also wish to bring to the attention of the Legislative Assembly matters that I consider to be further interference with the execution of my duties as an officer of the Legislative Assembly.

1.23 It is true that it has not been considered part of my responsibility under the existing legislation to inquire into and report upon the cost-effectiveness of the activities of the executive government. I have made comment on other occasions on this subject as it relates to the general business of my office.

Section 8(5) of The Provincial Auditor Act states:

"The Provincial Auditor shall administer, manage and control the office of the provincial auditor and the general business of the office and shall oversee and direct the staff of the office." (emphasis added)

In my opinion, it is, therefore, part of my responsibility to be concerned with the cost-effectiveness of the proposed use of private sector auditors because they are, in fact, part of the general business of the office, since I maintain a supervisory role. In fact, I have previously reported to the Legislative Assembly information concerning the cost-effectiveness of the use of private sector auditors. See Appendix II to this report.

For the private sector auditors appointed in the past I have assembled each year since 1983, information concerning the audit work conducted, the audit hours required to do this work and the amount of the fee charged for the work.

1.24 Based on the decision of the executive government to submit my Estimates on a scenario of "no supervisory role", I assumed that the government, in accordance with their policy statement contained in the Minister's letter to me of January 14, 1987 and the Treasury Board Minute in Appendix III, must have had information to demonstrate the cost-effectiveness of using private sector auditors in each and every case. I had to know what other auditors were going to do in order to plan my work and if necessary report to the House if accountability would suffer.

Therefore, on June 29, 1987 I wrote to all Crown corporations requesting the following information:

1) the audit requirements that form the basis for the audit fee proposals; and

2) a copy of all proposals received.

To date I have not received this information. Now:

1) the Acting Deputy Minister of Finance reported to the Standing Committee on Public Accounts on September 25, 1987:

"The Department of Finance does not have information that would enable it to comply with the Committee's request for a report on the cost-effectiveness of using private sector auditors.";

2) the President of Crown Management Board stated on September 24, 1987, at the Public Accounts Committee, when questioned as to whether there was a cost effectiveness study that:

"Well we have done some work. We have not completed the process."

1.26 Further, on September 2, 1987, my officials were refused access to the Crown Management Board board minutes. I require access to Board minutes in order to have sufficient knowledge concerning all financial activities of the executive government in order to report with confidence to the Legislative Assembly.

1.27 Appendix V contains all relevant correspondence related to my attempts to obtain the above information.

1.28 The Honourable Minister of Finance is quoted on page 2932 of Hansard as follows:

> *"Over the last few years the audit function has become more complex as technology and industry have become more sophisticated. Private sector auditors have been able to keep up with the rapid changes because of their diversification and specialization. Using private sector auditors more extensively to audit Crown corporations provides the opportunity to benefit from their expertise in various industries. and ultimately will improve the effectiveness and quality of audits in the Crown corporation sector. It will also allow the Provincial Auditor to make more effective use of his time and resources."*

1.29 If the implication of these remarks by the Minister of Finance is that my office has not kept up to date with the auditing standards of my profession, this is an assault not only on my competence but also on my professional staff.

1.30 As a matter of fact, in the administration of my office I require all professionals regularly to attend continuing education and professional development programs in order to keep them up to date in all auditing functions. All chartered accountants are required to keep up to date in order to comply with the competence requirements of generally accepted auditing standards.

1.31 I also reject any implication that the audits performed by my office are not effective or are lacking in quality. In the public sector the experience and expertise in my office are unsurpassed in Saskatchewan. Only the House can judge the effectiveness and quality of the audits performed for them, not appointed officials, the bureaucracy or even the executive government itself.

APPENDIX I

Saskatchewan

Minister
of Finance

Legislative Building
Regina, Canada
S4S 0B3

RECEIVED
JAN 16 1987
PROVINCIAL
AUDITOR

January 14, 1987

Mr. W.G. Lutz
Provincial Auditor
4211 Albert Street
Regina, Saskatchewan
S4P 3V7

Dear Mr. Lutz:

I am writing to inform you of a change in government policy regarding the auditing of Crown Corporations.

In summary, the change of policy will allow the Boards of Directors of Crown Corporations to accept proposals from accounting firms which might be interested in doing auditing work. As you are aware, a number of Crown Corporations are already being audited by private sector accounting firms. This change of policy will allow all of the Crowns to determine the most cost-effective means of having auditing work done.

The new policy also should alleviate some of the demands on your office and mitigate the need for more staff. My officials will meet with you at your convenience to discuss the appropriate legislative measures to effect the policy and protect the public's interest.

Yours truly,

J. Gary Lane, Q.C.
Minister of Finance

1720B

APPENDIX I

January 22, 1987

The Honourable J. G. Lane, Q.C.,
Minister of Finance,
Legislative Building,
Regina, Saskatchewan.
S4S 0B3

Dear Mr. Lane:

I am in receipt of your letter of January 14, 1987, regarding the auditing of Crown Corporations.

Please have your officials contact me when they wish to discuss this matter.

Yours truly,

W. G. Lutz, F.C.A.,
Provincial Auditor.

/sw

APPENDIX I

February 19, 1986

The Honourable J. G. Lane, Q.C.,
Minister of Finance,
Legislative Building,
Regina, Saskatchewan.
S4S 0B3

Dear Mr. Lane:

I have not heard from your officials regarding the change in policy for the auditing of crown corporations. As I am aware that the government is proceeding with the implementation of the policy, I wish to bring to your attention some serious concerns.

If the Legislative Assembly is to have control over all parts of the executive government, it is necessary that all government entities be equally accountable for their handling of public money. Accordingly, the Members of the Legislative Assembly need to receive uniform information from their auditor relating to the quality of administration of public money for each entity of the Government of Saskatchewan so that each entity may be held equally accountable regardless of the form of the entity even though a private sector auditor may be used to conduct the audit.

There are a number of Crown corporations that are not self-sustaining whose expenditures directly affect the budgetary accounts of Saskatchewan in order to carry out their mandates. Audits of these corporations are by their nature departmental audits. Because these entities are so closely meshed with the budgetary process, it is my view that I should continue to be the sole auditor of these departmental crowns.

.....2

In summary, as the officer of the Legislative Assembly appointed specifically to assist the Members of the Legislative Assembly in its responsibility to hold the executive government accountable, I believe that any legislative enactments to permit the appointment of private sector auditors should not in any way detract from my ability to satisfy myself as to the true state of affairs of all public money, including that managed by Crown corporations, in order to report with confidence to the Members of the Legislative Assembly.

Yours truly,

W. G. Lutz, F.C.A.,
Provincial Auditor.

/sw

APPENDIX I

Crown Management Board of Saskatchewan

Inter-office Memorandum

From: Greg Mrazek, Director
Accounting Services

Date: April 9, 1987

To: Mr. Willard Lutz
Provincial Auditor

File No.:

RECEIVED
APR 10 1987
PROVINCIAL AUDITOR

Re: Private Sector Auditors

Further to your conversation with Jack Vicq and Gerry Kraus you will find enclosed a list of the eighteen Crown corporations presently engaged in the selection of private sector auditors.

G. Mrazek.

Greg Mrazek

Encl.

cc: J. Vicq
G. Kraus

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MANAGER.....( )
.....Wendel.....(✓)
.....Lutz.....(✓)
.....( )

Crown Investments Corporation of Saskatchewan Suite 110 2400 College Avenue, Regina, Canada S4P 1C8 (306) 787-6851

CORPORATION

Crown Investments Corporation and pension plan (CMB)

Saskatchewan Power Corporation, subsidiaries and pension plan

Saskatchewan Telecommunications, subsidiary and pension plan

Saskatchewan Computer Utility Corporation

Saskatchewan Water Corporation

Saskatchewan Government Insurance, Saskatchewan Auto Fund & pension plan

Saskatchewan Economic Development Corporation

Saskatchewan Development Fund Corporation and Saskatchewan Development Fund

Saskatchewan Transportation Company

Agricultural Development Corporation

Saskatchewan Grain Car Corporation

Saskatchewan Housing Corporation

Municipal Financing Corporation

Agricultural Credit Corporation

Saskatchewan Crop Insurance Corporation

Saskatchewan Government Printing Company

Souris Basin Development Authority

Saskatchewan Property Management Corporation

APPENDIX I

April 13, 1987.

Mr. J. G. Vicq,
A/Deputy Minister of Finance,
2350 Albert Street,
Regina, Saskatchewan.
S4P 4A6

Dear Mr. Vicq:

At our meeting of April 3, 1986, regarding proposed legislation to effect the government policy of privatization I expressed my concern to you that the proposed legislation should not in any way make the Crown corporations less accountable to the Members of the Legislative Assembly. To make the Crown corporations less accountable to the Legislative Assembly would not be consistent with the Minister of Finance's expressed intent to protect the public interest.

In this regard, any reduction in my powers to examine and responsibilities to report to the Legislative Assembly pursuant to Section 11 and 12 of The Provincial Auditor Act would be a retrograde step in the accountability of Crown corporations to the Legislative Assembly with the result that our parliamentary system of government would be weakened.

At our meeting I asked whether the government had given consideration to joint audits as a means of carrying out their objective of privatizing audits. You said that joint audits had not been considered and that you would be interested in how joint audits might be employed to carry out the objective of privatizing audits.

I would see joint audits operating somewhat as follows:

- The Boards of Directors of the Crown corporations (or other appropriate government body) would engage by contract a private sector auditor of their choice.

- The private sector auditor and the Provincial Auditor would combine resources to carry out the audit.

- Both auditors would attest to the financial statements of the Corporation.

- The private sector auditor would also service any other needs of the Boards of Directors.

.....2

The Provincial Auditor would continue to service the needs of the Members of the Legislative Assembly and thus ensure that the Crown corporations would remain accountable to the Legislative Assembly.

I am of the opinion that existing legislation would permit joint audits.

On Friday, I received a letter from Mr. G. Mrazek, Crown Management Board of Saskatchewan. This letter contained a list of Crown corporations presently engaged in the selection of private sector auditing firms. Included in the list of Crown corporations are a number of Crown corporations that are not self-sustaining and whose expenditures directly affect the budgetary accounts of Saskatchewan in order to carry out their mandates. Audits of these corporations are by their nature departmental audits. It is my view, which is consistent with what has happened in Ottawa, that I must continue to be the auditor of these types of Crown corporations.

In addition to the foregoing, you requested information regarding the audit hours for Crown corporations. the budget I submitted in January, 1987 contained the following audit hours for those corporations set out in Mr. Mrazek's letter.

Article Students	10,110
Assistant Supervisors	4,335
Audit Supervisors	4,740
Computer Audit Specialist	975
	20,160

The budget also contained 3,900 hours of Audit Manager and Deputy Provincial Auditor time.

In order to continue to oversee public accountability as the watchdog over all public money, it is my opinion that the work carried out by the Audit Managers and Deputy Provincial Auditors must continue in order that I can continue to examine in the manner I deem necessary to ensure public accountability.

I also mentioned when we met that rent for my lease on my premises is fixed for a 5 year term commencing April 1, 1987.

I wish to inform you that any attempt by the executive government to dictate through budgetary control the extent and nature of the inquiries that I deem necessary to carry out my duties under The Provincial Auditor Act would represent a serious attack on the independence of my office as it would limit my ability to report with confidence to the Legislative Assembly.

The last observation I make, is that, if public servants who are to be audited, are in the process of determining legislation which will govern how they are to be audited and I am not involved as I have been in the past, who is looking after the interests of the Legislative Assembly, which is the body that requires the audit?

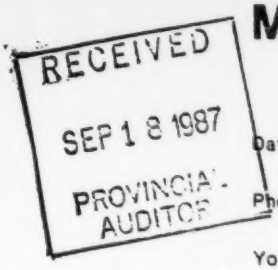
Yours truly,

W. G. Lutz,
Provincial Auditor.

/sw

Government of Saskatchewan

Memorandum



From Jack Vicq, Acting Deputy Minister
Department of Finance

Date September 18, 1987

To W. G. Lutz
Provincial Auditor

Phone 787-6621

Your File

Re Amendments to The Provincial Auditor Act

Our File

The Government plans to introduce a Bill to amend The Provincial Auditor Act. The Bill will provide for the audit of Crown Corporations and certain Crown Agencies by private sector auditors in a more independent and efficient manner while at the same time, preserving the overall mandate of the Provincial Auditor.

The highlights of the main amendments of the Act are as follows:

- The amended Act would provide for private sector auditors to examine the accounts of a Crown agency or Crown-controlled corporation under similar conditions as those prescribed for the Provincial Auditor.

- Private sector auditors are subject to the same examination responsibilities as those currently prescribed for the Provincial Auditor.

- As a consequence, the Provincial Auditor no longer has the specific authority to require private sector auditors to include any additional procedures or perform any additional work that he considers necessary.

- Instead, the Provincial Auditor may rely on the report prepared by an appointed auditor which is to be prepared using the same objectives as the Provincial Auditor. If the Provincial Auditor determines that he cannot rely on the report of the private sector auditors, he must conduct additional audit work and report on the reasons and results of this additional work in his annual report to the Legislative Assembly.

- The Provincial Auditor and each appointed auditor are required to prepare a management letter that identifies any matters that they consider to be of significance and of a nature that should be brought to the attention of the Legislative Assembly. The Provincial Auditor is responsible for compiling the reports and submitting them as part of his annual long form report to the Legislative Assembly.

. . . 2

. To further ensure uniformity and consistency of audits, all auditors are required to apply generally accepted auditng standards as set out by the Canadian Institute of Chartered Accountants.

We are confident that this amended Act will provide for a more effective audit process and maintain full accountability.

Jack Vicq

cc: Hon. J. Gary Lane, Q.C.

SPECIAL REPORT OF THE PROVINCIAL AUDITOR

TO THE LEGISLATIVE ASSEMBLY

November 27, 1986

1.0 Introduction

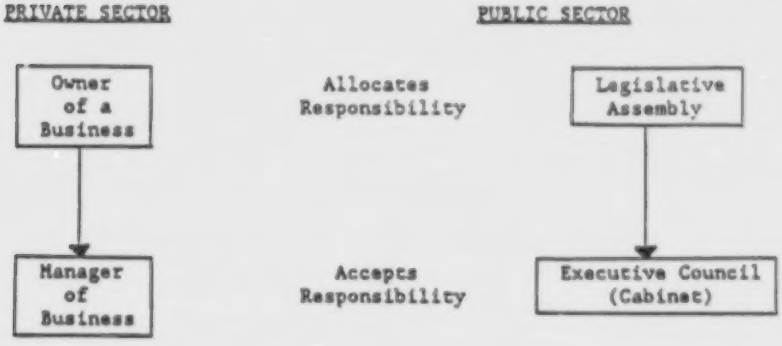
1.1 My duty as an officer of the Legislative Assembly is to assist it in holding the Executive Council accountable for the financial stewardship responsibility assigned by law to the Executive Council.

1.2 Section 13 of The Provincial Auditor Act permits the Provincial Auditor to report to the Legislative Assembly on any matter that is, in his opinion, important or urgent.

1.3 An analogy may help in understanding the environment in which the Provincial Auditor operates.

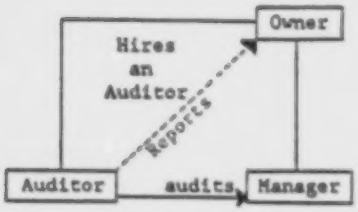
1.4 A comparison may be drawn between the private sector and the public sector where an undertaking is operated by a manager who is appointed for the purpose of managing the enterprise.

This diagram describes a situation in the private sector where an owner of a business hires a manager and allocates certain responsibilities for the operation of that business to the manager. The manager is accountable to the owner. It draws a comparison to the public sector wherein the Legislative Assembly allocates responsibility to administer public funds to the Executive Council. The Executive Council is accountable to the Legislative Assembly.

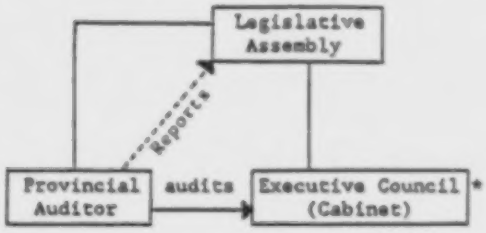


1.5 This diagram expands on the diagram in section 1.4 and describes a situation where the owner of a business hires an auditor to audit the manner in which the manager has discharged his responsibilities and to report directly to the owner the results of his audit. The diagram draw a comparison to the public sector. In the public sector the Provincial Auditor audits or causes to be audited the manner in which the Executive Council has administered public funds and reports directly to the Legislative Assembly.

PRIVATE SECTOR



PUBLIC SECTOR



*All departments and Crown corporations responsible to Cabinet.

2.0 Interference in the effective operation of the Office of the Provincial Auditor.

2.1 In this regard, I report that I have been unable to obtain sufficient resources through the Executive Council (Cabinet). The result of this inability to obtain sufficient resources seriously interferes with the effective operation of my office to audit and report to the Legislative Assembly in a timely manner.

2.2 I am required to make critical comments to my statutory client, the Legislative Assembly, about the Executive Council's (management's) financial management practices. I am also in the difficult position of having to obtain the resources through management to do this work. This situation allows the possibility of management interference in the effective operation of my office.

2.3 An analogy may help in understanding this problem. The analogy is an owner telling his auditor to get from the manager all of the resources he needs to make critical comments to the owner about management

2.4 This situation does not exist for three other officers of the Legislative Assembly, namely, the Clerk of the Legislative Assembly, the Legislative Librarian and the Legislative Counsel and Law Clerk. These officers obtain their resources from a Board of the Legislative Assembly.

2.5 Allowing Cabinet to set my resources is not consistent with the theory that I am appointed for the benefit of the Members of the Legislative Assembly.

2.6 It is my opinion that I should not have to obtain the resources for my office through Cabinet. I, therefore, recommend that the Standing Committee on Public Accounts, a Committee of the Legislative Assembly:

a) be responsible to review, amend and approve my spending estimates prior to tabling in the Legislative Assembly;

b) have the authority to determine the resources for my office; and

c) have the authority to lay this estimate before the Legislative Assembly.

I further recommend that the Estimates for my office be referred by the Legislative Assembly to the Standing Committee on Estimates under rule 86(5).

I have been advised that no legislative changes would be required to effect this recommendation.

2.7 Since the Standing Committee on Public Accounts has familiarity with and an understanding of the work of the Provincial Auditor, it has the knowledge to examine my spending estimates.

2.8 The Standing Committee on Public Accounts of Canada has recently recommended to the House of Commons that the spending estimates of the Auditor General of Canada be referred to it.

3.0 **Public sector auditing costs.**

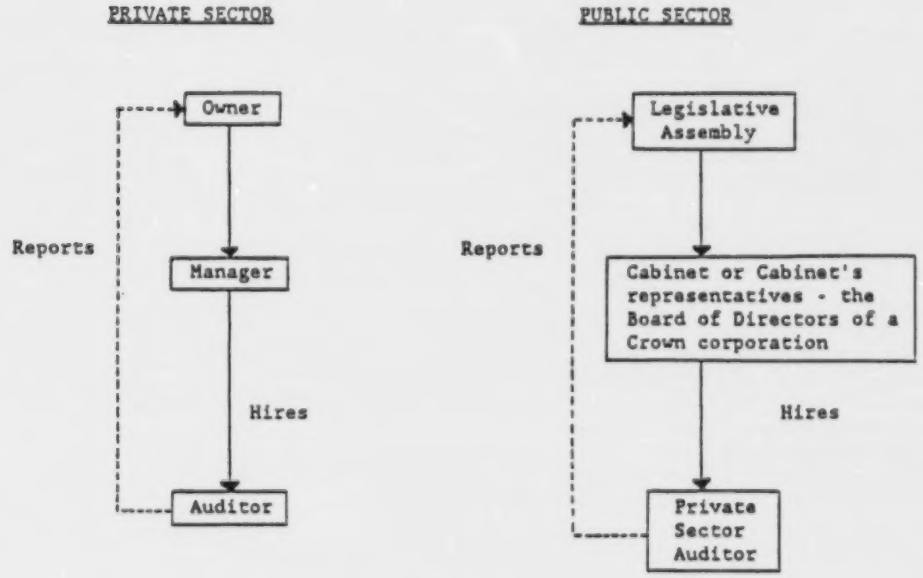
3.1 A brief report on public sector auditing cost efficiency would be useful to assist the Legislative Assembly to evaluate whether or not it is cost efficient to use private sector auditors to discharge its audit requirements.

3.2 Private sector auditors, when appointed auditor for a particular Crown corporation, also work for the benefit of the Members of the Legislative Assembly and are, therefore, called upon to discharge all of the audit requirements of the Legislative Assembly.

3.3 To allow Cabinet or the Board of Directors of a particular Crown agency to make this determination allows them to effectively control the appointment of auditors to their interests and not necessarily for the benefit of the Members of the Legislative Assembly.

3.4 An analogy may help in understanding this problem.

In this diagram the owner of the business tells the manager to hire an auditor to make critical comments directly to the owner about the manager's performance. The diagram draws a comparison to the public sector. In the public sector Cabinet is allowed to appoint a private sector auditor to audit certain crown corporations on behalf of the Legislative Assembly.



3.5 The Honourable William Z. Estey in his report on the inquiry into the collapse of the CCB and Northland Bank had a number of comments on management interference in the relationship between an auditor and his statutory client.

"All of this appears to have led to the chopping by management of Clarkson, Gordon from the audit rotation for the year 1985 .... When these events are assessed with a similar incident in 1980 they greatly reinforce the conclusion that bank management effectively controlled the appointment of auditors according to their own interests and not necessarily those of the shareholders who appoint them."

"Interference by management in the process of the appointment by shareholders of auditors ... make a farce out of the theory that the auditors are appointed by and for the benefit of the shareholders."

3.6 I have been concerned for some time about the practice of the Executive Council appointing private sector auditors to audit crown agencies on behalf of the Legislative Assembly. Over the past several years I have assembled information about the additional cost of this practice.

3.7 The Standing Committee on Public Accounts is the Committee of the Legislative Assembly with the constitutional role of evaluating public spending. It bases its questions and conclusions on three criteria: economy, efficiency and effectiveness.

3.8 The determination of whether or not it is cost effective to have a private sector auditor discharge the audit requirements of the Legislative Assembly for a particular Crown agency should be made by the Standing Committee on Public Accounts. Referring these matters to this Committee would also reduce the possibility of management interference and ensure the public interest, inherent in the concept of establishing an independent legislative auditor, is well served in a non-partisan sense.

3.9 In my 1985 annual report I reported that in total $776,000 was paid to private sector auditors for the audit of certain crown corporations for the 1984/85 fiscal year. The information that I have obtained indicates that the present practice of using private sector auditors appears to cost the people of Saskatchewan an approximate additional sum of $200,000 annually.

3.10 This estimate of additional cost is based upon:

a) experience obtained from my supervision of the private sector auditors' work over the past several years; and

b) information about audit fees obtained from the private sector auditors over the past several years.

3.11 I, therefore, recommend that the Standing Committee on Public Accounts review the present costs of using private sector auditors and also review the cost of any additional proposed use of private sector auditors to ensure that their use is based upon the most cost efficient manner to discharge the audit requirements of the Legislative Assembly.

4.0 Events leading up to this Special Report.

4.1 My annual report for a fiscal year is normally tabled in the next fiscal year at the beginning of the spring session of the Legislative Assembly.

4.2 On October 21, 1985, I asked Treasury Board for $3.657 million (1986/87 fiscal) in order to discharge the audit requirements of the Legislative Assembly in as timely a manner as prior years.

4.3 In 1983 when legislation transferred the management of the office to me the level of funding was $3.587 million. For the 1986/87 fiscal year the office was provided $3.507 million which is approximately 2% less than what was provided in the 1982/83 fiscal year.

4.4 When I became aware that the resources requested for my office were reduced, I asked my officials to re-examine the resources necessary to complete the work of the office.

4.5 As part of this review, I also asked them to consider if the work of the office had been reduced by:

a) 1986 legislation introduced by the executive government; and

b) the proposed 1986/87 spending estimates for the Consolidated and Heritage Funds

4.6 This review disclosed that the work of my office has increased rather than decreased.

4.7 The increased work for my office results from major new government initiatives together with increased spending out of the Consolidated and Heritage Funds. Some of these major new government initiatives are the Saskatchewan Pension Plan, Property Management Corporation, special assistance to farmers and provincial income tax incentive programs.

4.8 After this review it was my opinion that with the resources presently provided my annual report would be delayed approximately one month.

4.9 Also, it was my opinion that, if my resources remained at the present level, my annual report for the 1987 fiscal year would be delayed by an additional month because of the compounding effect.

4.10 It appeared that my annual report for the 1987 fiscal year would not be available for a spring session of the Legislative Assembly in 1988.

4.11 Accordingly, on June 23, 1986, I wrote to the Chairman of Treasury Board and asked for additional funds for 1986/87 to maintain the present timing of the work of my office. I advised him that unless I was given more funds my annual report would be delayed.

4.12 On July 14, 1986, the Chairman of Treasury Board wrote me and advised: *"It was the expectation of myself and my colleagues that the funding provided to your office this year would provide sufficient funds to allow you to carry out your responsibilities. It was anticipated that, as are a number of government departments and agencies, your office would rise to the challenge of financial management in times of fiscal uncertainty. I continue in this belief, and would ask that you reconsider your requirements with a view to carrying out your responsibilities within the funding level provided."*

4.13 I responded to the Chairman of Treasury Board on July 30, 1986 advising him that I was of the opinion that I have risen to the challenge of good financial management. I also told him I continue in the belief that the resources provided for my office are not enough to carry out the work of my office in a timely manner.

4.14 In my July 30, 1986 letter to the Chairman of Treasury Board, I also made the following observations:

a) Government spending through the Consolidated Fund and Saskatchewan Heritage Fund has increased. In 1986/87 the estimated spending through these two funds alone is 28% above the 1983 level. In this same period I requested a 2% increase above the 1983 level.

b) Since 1983 the rates for goods and services which I obtain from provincial government agencies for telephone and vehicle rentals have increased approximately 20% and 28% respectively.

c) The amounts charged by the federal government for unemployment insurance premiums and Canada Pension Plan contributions have increased by 31% and 39% respectively.

d) There have been a number of new funds and crown agencies created since 1983 that administer public money. These funds and agencies require an audit pursuant to The Provincial Auditor Act.

e) I have observed and reported on an increasing number of inadequate financial management practices within the government since 1983. These inadequate financial management practices cause additional work for my office.

f) I have observed that during the three year period ended March 31, 1985, private sector auditors who audit crown agencies have increased their fees on average 13%.

4.15 The auditor who audits the affairs of my office recently reported on the financial management practices in my office as follows:

"The organization and effectiveness with which your office conducts its affairs are excellent and reflect a high degree of professionalism."

4.16 On August 11, 1986, the Chairman of Treasury Board acknowledged receipt of my letter. He advised that he would have his officials consider my request for more resources.

4.17 On September 23, 1986, one of my officials received a telephone call from a Treasury Board official regarding my request for more resources. The Treasury Board official asked that additional information be provided to Treasury Board in the form of a letter from me.

4.18 On September 29, 1986, I sent a letter to Treasury Board setting out the requested information.

4.19 On October 7, 1986, during a telephone call to one of my officials, a Treasury Board official asked for and received clarification regarding my request.

4.20 On October 8, 1986, Treasury Board officials again asked one of my officials for further information by way of a letter from me. On my instruction, the Treasury Board official was asked to write me a letter setting out what information was needed and why the information was needed in order to consider my request for resources. This was done to ensure that there would be no misunderstandings. To the date of this report I have not received any further communication regarding this matter.

4.21 On October 16, 1986, I met with the Secretary of Treasury Board and one of his officials.

4.22 During the meeting I told him that the present Estimates process for my office is unacceptable and the reasons why it is unacceptable. I asked him to propose a different process which would be acceptable to both of us. In this regard, I suggested that he consider using the Standing Committee on Public Accounts to review, amend and approve the Estimates for my office.

I also told him that I could not see any merit in my future attendance at Treasury Board to discuss my estimates.

4.23 I telephoned the Secretary of Treasury Board on November 19, 1986, and asked if he was prepared to propose a different Estimates process for my office. There were no further developments at that time.

APPENDIX III

February 4, 1987

The Honourable J. G. Lane, Q.C.,
Chairman,
Treasury Board,
Legislative Building,
Regina, Saskatchewan.
S4S 0B3

Dear Mr. Lane:

As requested by Mr. D. Heron in his memorandum of January 19, 1987, I enclose a copy of the Budget Strategy Paper for the Office of the Provincial Auditor.

Yours truly,

W. G. Lutz, F.C.A.,
Provincial Auditor.

Encls.
/sw

APPENDIX III

OFFICE OF THE PROVINCIAL AUDITOR

Budget Strategy Paper

January, 1987

Executive Summary

The Provincial Auditor Act, Chapter P-30.1, 1983 established the Office of the Provincial Auditor as an Office of the Legislative Assembly. The legislation sets the Provincial Auditor's responsibilities to audit and report.

The level of funding required for my office is a product of applying professional auditing standards to the financial transactions of the government, taking into account the existing structures established to administer these transactions. Increased or reduced government financial activity directly increases or decreases my work. Realignment of the government's administrative structures can also serve to increase or decrease the work of my office.

Legislation determines what I must audit and report upon, my profession determines the minimum auditing standards I must follow and the executive government determines the level of government activity and government organization structure. Accordingly, as I do not control these factors, I am not in a position to propose a funding level other than the preferred funding level which is based upon what is in place for legislation, professional standards and government financial activity and structure at this time.

Also, as the Officer of the Legislative Assembly whose role is to assist the Legislative Assembly in holding the Executive Council accountable for its administration of public money, it would not be consistent with this role for me to propose alternative funding levels to the Executive Council that would make the Executive Council less accountable to the Legislative Assembly.

I. Preferred Budget

The funding for my office for a fiscal year is for the most part the resources necessary to audit and report on the government's financial transactions for the previous fiscal year. Therefore, for example, reduced or increased government financial transactions for 1987/88 will not fully impact the need for resources for my office until the 1988/89 fiscal year.

The preferred budget option set out below is my estimate of the resources necessary to audit the financial transactions of government for 1986/87 based upon the government structure and estimated financial transactions at December 31, 1986. It assumes a constant structure and level of government financial activity for the years 1988 to 1991.

This preferred level of funding would allow my office to conduct my examination of public money covering the 12 months ended March 31, 1987 over a 12 month period with the result that my 1987 annual report should be no later than my 1986 annual report. I anticipate that my report for the 1986 fiscal year will be completed in late April, 1987. My 1986 annual report is late because of the inadequate funding level for 1986/87.

	($000's)				
	1986/87 Blue Book	1987/88	1988/89	1989/90	1990/91
Preferred Budget	$3,507	$3,620	$3,672	$3,726	$3,781
Cost reflected in Crown Corporations through my audit fees	723	800	811	823	835
Net cost reflected in Consolidated Fund	$2,784	$2,820	$2,861	$2,903	$2,946
Person years	63	67	67	67	67

II. Alternative Levels

Revenue

At the present time I levy an audit fee to certain Crown agencies. The result of levying this fee is to reflect part of the cost of the audit of public money in the Crown agencies and the remaining part in the Consolidated Fund.

The fee that I levy is based on recovery of my costs. My costs are approximately 25% below the rate per hour charged by private sector auditors, based upon present data assembled in my office

If it were government policy to have these Crown agencies pay audit fees in a greater amount, I could charge additional fees to these Crown agencies, e.g. 25%.

In this case, while there would be no overall increase in the cost to audit public money the allocation would change so that approximately $.2 million more would be reflected in the Crown corporations and $.2 million less would be reflected in the Consolidated Fund.

III. Other Factors Considered

A. I have considered privatization. Over the past ten years I have gained considerable experience in my dealings with private sector auditors in ensuring, to the extent possible, uniform accountability for the administration of public money.

I have not prepared a budget option for privatization of audits because:

1) there would, in my opinion, be diminished accountability of the executive government to the Legislative Assembly by the further use of private sector auditors in the audit of public money.

2) Based upon data that I have assembled the use of private sector auditors increases the total cost to the people of Saskatchewan, for the audit of public money.

It has been my experience that the average charge per hour by private sector auditors for the audit of public money is approximately 25% greater than my average cost per hour. Experience has also shown that the number of hours required by a private sector auditor to conduct an audit of public money is no less than the number of audit hours used by my staff to conduct the same audit.

However, I understand that a number of Crown corporations are at the present time requesting proposals from private sector auditors for the audit of their respective corporations which may provide additional data on the costs to privatize audits. Once the results of these proposals are available and, if a decision is taken to privatize more audits, I will prepare a new budget for my office to reflect my changed workload.

B. I understand that there may be a reorganization of government programs. My forecast of expenditures for 1988 to 1991 does not reflect reduction or increase in my work which may result from any reorganization. Once I am aware of government's intention, I will review my work load and propose the appropriate expenditures for my office.

C. I have considered additional fees for service. I do not believe that there is any potential at the present time to charge additional agencies audit fees that would have a positive net effect on the Consolidated Fund.

D. I am not in a position to propose program termination or program shrinkage as I only have one function which is set by statute. III-3

E. I am not aware of any potential for shifting my work to the federal or municipal level.

Saskatchewan

Minister
of Finance

Legislative Building
Regina, Canada
S4S 0B3

RECEIVED
FEB 18 1987
PROVINCIAL
AUDITOR

February 11, 1987

Mr. W. G. Lutz, F.C.A.
Provincial Auditor
1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Dear Mr. Lutz:

This will acknowledge receipt of your letter of February 4, 1987, and the enclosed Budget Strategy Paper for the Office of the Provincial Auditor.

Yours truly,

J. Gary Lane, Q.C.
Minister of Finance

1977.8m

May 21, 1987

Mr. J. Vicq,
Secretary,
Treasury Board,
2350 Albert Street,
Regina, Saskatchewan.
S4P 4A6

Dear Mr. Vicq:

In order to plan the work of my office, I would appreciate being advised of the 1987/88 funding for my office including any additional funds which are available to my office for severance pay.

Yours truly,

W. G. Lutz,
Provincial Auditor.

/sw

Saskatchewan

Saskatchewan
Finance

Treasury Board Division

10th Floor
2350 Albert Street
Regina, Canada
S4P 4A6

May 27, 1987

RECEIVED
MAY 27 1987
PROVINCIAL AUDITOR

Mr. W.G. Lutz, FCA
Provincial Auditor for Saskatchewan
Provincial Auditor
1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V7

Dear Mr. Lutz:

This will confirm our request of May 26, 1987 to Mr. Fred Wendell for additional information regarding the development and review of the 1987-88 budget for your office.

We have asked that the following information be provided to us by noon on Friday May 29:

- a budget which assumes privitization of all Crown audits within Mr. Mrazek's letter to you, with final responsibility for reporting to the Legislative Assembly resting with your office; and
- an alternative budget which assumes similar privitization of Crown audits, with the Provincial Auditor having no responsibility reporting to the the Legislative Assembly.

More specifically, for each option we would appreciate receiving:
- a breakdown of salary and non-salary dollars; and
- an analysis of your current staffing status, including the number of permanent, non-permanent, and their current staffing status.

Upon receipt of this information we will be then in possession of the necessary information to permit a response to your letter of May 21, 1987 to Mr. Vicq regarding the level of your approved 1987-88 budget.

. . ./2

Your continued co-operation in this matter is greatly appreciated.

Sincerely,

Robert Blackwell

cc: J. Vicq
W. Brownlee
D. Wincherauk

/dms

APPENDIX III

May 28, 1987

Mr. R. Blackwell,
Director,
Budget Review Section,
Treasury Board Division,
Department of Finance,
2350 Albert Street,
Regina, Saskatchewan.
S4P 3V7

Dear Mr. Blackwell:

This letter is in response to your letter of May 27, 1987, requesting additional information regarding the funding for my office.

I estimate that I will require the following funding for the 1987/88 fiscal year:

	Option A Privatization With Full Responsibility for Reporting to the Legislative Assembly		Option B Privatization With No Responsibility for Reporting to the Legislative Assembly	
	Person Years	Amount	Person Years	Amount
Personal Services	51	$2,120,000	49	$2,054,700
Other Expenses		835,900		827,600
Severance		272,000		310,000
Outplacement Services (e.g. Stevenson Kellog)		20,000		30,000
		$3,247,900		$3,222,300

III-8

.....2

The funds being requested under the caption personal services is comprised of the following:

1) Salaries for 51 and 49 person years for 9/12 of the year in the amounts of $1,526,500 and $1,461,200 respectively; plus

2) The 3/12 interim funding presently provided by way of special warrant for the existing staff levels.

At the present time I have sixty employees. All of these employees have a personal services contract with me.

In addition, I wish to inform you that I have recently appeared before the Labour Relations Board. I am awaiting a decision as to whether or not employees of my office are represented by the S.G.E.U. It is not possible at this time to determine the effect of this decision. I will inform Treasury Board at a later date if there is a dollar effect.

Yours truly,

W. G. Lutz,
Provincial Auditor.

/sw

Government of Saskatchewan

Memorandum

From Jack Vicq, Secretary
Treasury Board

Date June 19, 1987

Phone

To Willard Lutz
Provincial Auditor

Your File

Our File

RECEIVED
JUN 2 4 1987
PROVINCIAL AUDITOR

Re TREASURY BOARD MINUTE #1219
1987 - 88 BUDGET

Please find attached Treasury Board Minute #1219 detailing the 1987-88 budget for your Agency as approved by Treasury Board.

Total funding for the Provincial Auditor has been approved at the 1987-88 level of $3,230,600.

The Provincial Auditor's 1987-88 budget contains $340,000 in one-time costs (see Appendix E for details). The expenditure base of the Office of the Provincial Auditor will be net of these costs for the purposes of budget development for 1988-89.

Jack Vicq

cc: W. Brownlee
M. Shaw
R. Blackwell
D. Wincherauk
P. Suwala

/dms

APPENDIX III

1987-88 BUDGET: SUMMARY

DEPARTMENT: PROVINCIAL AUDITOR

VOTE: 28

Expenditure Summary

1986-87 Blue Book	1987-88 Dept. Request	1987-88 Approved	Change Over 1986-87	
$	$	$	$	%
3,507,100	3,657,100	3,230,600	(276,500)	(7.9)

1987-88 Approved by Category - $				
Third Party Grants	Payments to Individuals	Income Security	Capital	Program Services
				3,230,600

Personnel Establishment

1986-87 Blue Book		1987-88 Dept. Requested		1987-88 Approved		Increase Over 1986-87 Blue Book	
Perm	Non-Perm	Perm	Non-Perm	Perm	Non-Perm	Perm	Non-Perm
63.0		67.0		0.0	0.0	n/a	n/a

MAJOR BUDGET ITEM

Transfer of Saskatchewan Crown Corporation Audits

- In 1987-88 the Government intends to pursue a policy of allowing Crown Corporation audits to be conducted by private sector firms in instances of demonstrated cost effectiveness. Under this policy, it is expected a number of audits previously conducted by the Provincial Auditor will now be conducted by private sector firms.

  As a result, funding for the Provincial Auditor has been reduced by $426,500 from the requested level. The net reduction from 1986-87 Blue Book is $276,500 (7.9%). Given that the Auditor and his staff are officers of the Assembly, person year data is not being reflected within the Estimates.

APPENDIX III

1987-88 SUBVOTE DETAIL

DEPARTMENT: PROVINCIAL AUDITOR

VOTE: 28

Subvote: 01 - Administration

	Department Request		Additions		Deletions		Total Approved	
Code	$	P.Y.	$	P.Y.	$	P.Y.	$	P.Y.
1							2,364,700	
2-5							865,900	
Total							3,230,600	

Three levels of funding were reviewed:

Level A - Provincial Auditor Preferred Level

$2,695,460 - Personal Services
961,640 - Other Expenses

$3,657,100

Level B - Crown Privatization - Partial Responsibility

$2,120,000 - Personal Services
835,900 - Other Expenses
272,000 - Severance
20,000 - Outplacement Services
8,300 - SPMC mail charges

$3,256,200

Level C - Crown Privatization - No Responsibility

$2,054,700 - Personal Services
827,600 - Other Expenses
310,000 - Severance
30,000 - Outplacement Services
8,300 - SPMC mail charges

$3,230,600

* Permanent
† Non-Permanent

APPENDIX A

The 1987-88 budget for the Provincial Auditor contains $340,000 in one-time costs associated with program and staffing changes undertaken this year. These one-time expenditures are summarized below, and will not be included in the base used to generate a budget for 1988-89.

PROVINCIAL AUDITOR	ONE-TIME EXPENDITURE
Administration - 01	
- severance and vacation payout for laid-off staff	$310,000
- outplacement services and career counselling	30,000
DEPARTMENT TOTAL - Not considered part of 1987-88 base budget	$340,000

APPENDIX III

June 22, 1987

Mr. J. Vicq,
A/Deputy Minister of Finance,
2350 Albert Street,
Regina, Saskatchewan.
S4P 4A6

Dear Mr. Vicq:

I have not been provided with the appropriate funds to allow me to terminate the employment of certain staff in my office as contemplated by the Estimates and also comply with The Labour Standards Act.

After discussion with my solicitor, I am of the opinion that I must comply with The Labour Standards Act. Therefore, I must have the necessary funds in my hands no later than 14 days after the date that I issue the termination notices.

If the termination of employees in my office is unduly delayed the funding needs for my office will increase beyond those requested in my letter to Mr. Blackwell of May 28, 1987.

I am prepared to issue termination notices before interim supply if I can obtain a written undertaking from the Minister of Finance that all necessary funds will be available to me and also specifying the date that these funds will be available so that I can time the termination notices to comply with The Labour Standards Act.

I await your response.

Yours truly,

W. G. Lutz,
Provincial Auditor.

/sw

Orig - Summary
Copy - Mr. Lutz
F. Wendel

Saskatchewan

Saskatchewan
Finance

Deputy Minister

2350 Albert Street
Regina, Canada
S4P 4A6

(306) 787-6621

RECEIVED
JUL 0 2 1987
PROVINCIAL
AUDITOR

June 30, 1987

Mr. W. G. Lutz, F.C.A.
Provincial Auditor
Province of Saskatchewan
1500 Chateau Tower
1920 Broad Street
Regina, Saskatchewan
S4P 3V6

Dear Mr. Lutz:

I am writing in response to your letter of June 22, 1987 concerning funding for your office.

I have reviewed the level of funding for your office as provided within the 1987-88 Estimates. I note from information on file that this amount was determined from budgetary requirements provided by your office and that this amount does contain funding for severance of $310,000 and out-placement service of $30,000.

It is our intention to have the full amount of this funding made available to you through the Interim Supply process. I anticipate the Minister of Finance to introduce the necessary Bill within the Legislature in the very near future. The passage of this Bill however rests with the Members and I cannot guarantee the date of its passage.

I recognize the difficult situation with which you are faced but I am sure you also recognize the uncertainty we face as to attempting to specify the particular date upon which Interim Supply will be passed. My advice to you at this time is that we are doing our best to provide you with the funds you need. You should proceed in a manner consistent with your best judgement.

Sincerely yours,

Jack Vicq

cc: Honourable J. Gary Lane, Q.C.
Wayne Brownlee

APPENDIX IV

The following section be added after section 19:

"19.1 (1) The Provincial Auditor shall present to the Board of Internal Economy the estimates of the sums of money that are required to be provided by the Legislature for the purposes of this Act.

(2) That Board shall review the estimates and make any alterations that it considers proper, and shall thereafter concur in the estimates.

(3) The Speaker shall cause the estimates to be laid before the Legislative Assembly and the Assembly may refer the estimates to a Standing Committee of the Legislative Assembly pursuant to the rules of the Legislative Assembly.

(4) Where the estimates are not referred to a Standing Committee of the Legislative Assembly, the estimates are to be considered in the Committee of Finance and defended by a member of the Executive Council who is a member of the Board of Internal Economy and designated by the Speaker.

(5) For the purposes of applying for a special warrant under Section 33 of the Department of Finance Act, the member of the Executive Council designated by the Speaker shall be the Minister responsible for the matter and, when the Speaker reports to the Minister that the appropriation is exhausted or insufficient and that the expenditure is urgently and immediately required for the public good, the Minister shall recommend to the Lieutenant Governor in Council that a special warrant be prepared.

APPENDIX V

Example of letter to all Crowns

June 29, 1987

Mr. Jack Drew,
Chairman of the Board,
Agricultural Credit Corporation
of Saskatchewan,
3085 Albert Street,
Regina, Saskatchewan.
S4S 0B1

Dear Sir:

I have been advised that Crown agencies have requested and obtained proposals from auditing firms.

For the purpose of reporting to the Legislative Assembly, and pursuant to The Provincial Auditor Act, I hereby request a copy of your Corporation's correspondence with auditing firms that sets out; 1) the audit requirements that form the basis for the audit fee proposals, and 2) a copy of all the proposals received.

Yours truly,

W. G. Lutz,
Provincial Auditor.

/sw

APPENDIX V

Corres: D&C2A
cc Wendell Lutz

Crown Management Board of Saskatchewan

RECEIVED
JUL 17 1987
PROVINCIAL AUDITOR

Inter-office Memorandum

From: W.B. Gibson, President
Crown Management Board

Date: July 15, 1987

To: Mr. Willard G. Lutz, F.C.A.
Provincial Auditor

File No.:

Re: Auditors

This letter is written on behalf of the eighteen Crown corporations presently involved in the selection of a new auditor and is in response to a letter from your office dated June 29, 1987. In your letter you requested that certain information relating to the selection process be provided to you for the purpose of reporting to the Legislative Assembly.

Considering the importance of this issue, we consider that it would be appropriate for you to indicate to us the nature of your proposed report to the Legislative Assembly. Accordingly, the corporations could then discuss the nature of the report with you so that their positions are fairly presented. The foregoing process would ensure that your concerns are understood by the corporations and that in turn you appreciate the position of the corporations. Finally, it would then be possible for all relevant information to be provided to you in order that you may fairly report to the Legislative Assembly.

I look forward to your response.

W.B. Gibson

W.B. Gibson

cc: Mr. D. Stankov
Mr. Garth C. Kennedy
Mr. Allan W. Wagar
Mr. Larry A. Kyle
Hon. Grant Hodgins
Mr. D. Gavin Koyl
Hon. Herb Swan
Mr. Jack Drew
Hon. Grant Devine
Hon. Graham Taylor
Mr. Murray Acton
Hon. J. Gary Lane, Q.C.
Hon. Eric Berntson
Hon. Jack Klein

July 21, 1987

Mr. W. B. Gibson,
President,
Crown Management Board,
2400 College Avenue,
Regina, Saskatchewan.
S4P 1C8

Dear Mr. Gibson

Re: Auditors

This letter is in response to your memorandum of July 15, 1987.

As I pointed out in my annual report to the Legislative Assembly, I intend to make a special report to the Legislative Assembly if, in my opinion, the actions of the executive government will make it less accountable to the Legislative Assembly for its administration of the Crown Corporations.

At the present time, I am gathering information to determine whether or not a special report to the Legislative Assembly will, in my opinion, be necessary.

In order that I have all the information that I consider necessary to report to the Legislative Assembly should I determine a report on this matter is required pursuant to The Provincial Auditor Act, I again request:

1) the audit requirements that form the basis for the audit fee proposals, and;

.....2

2) a copy of all the proposals received.

Please provide the information by August 7, 1987.

If I determine that a special report to the Legislative Assembly is necessary, I have an established process in my office to ensure that the contents of any report are factual and presented fairly.

Yours truly,

W. G. Lutz,
Provincial Auditor.

c.c. Mr. D. Stankov
Mr. Garth C. Kennedy
Mr. Allan W. Wagar
Mr. Larry A. Kyle
The Honourable G. Hodgins
Mr. D. Gavin Koyl
The Honourable H. Swan
Mr. Jack Drew
The Honourable G. Devine
The Honourable G. Taylor
Mr. Murray Acton
The Honourable J. G. Lane, Q.C.
The Honourable E. Berntson
The Honourable J. Klein

APPENDIX V

DISTRIBUTION

FILE # D601A

ORIGINAL TO CORRESPONDENCE .....(L)

C.C.

STATEMENTS .....( )

PUBLIC ACCOUNTS

MASTER FILE.....( )

DEPUTY .....( )

MANAGER.....( )

.....F. Wendel...(L)

.....W. Lutz....(L)

.....Sandy....(L)

Crown Management Board of Saskatchewan

Inter-office Memorandum

From: W. B. Gibson, President
Crown Management Board

Date: August 6, 1987

RECEIVED
AUG 7 1987
PROVINCIAL AUDITOR

To: W. G. Lutz
Provincial Auditor

File No.:

Re: Crown Corporation Auditors

In response to your letter of July 21, I want to confirm that the objective of my July 15 memo was to continue our attempt to establish a constructive dialogue with you in order to respond to the concerns you appear to have over the selection of new auditors for certain Crown corporations. It would appear from your reply that it is not your intention to discuss this matter with the corporations or with Crown Management Board but rather to report to the Legislative Assembly based upon the narrow scope of information which you have requested.

The audit proposals were requested in confidence by the Crown corporations and were delivered in confidence by the firms of Chartered Accountants. Furthermore, until the formalities associated with the appointment of private sector auditors are finalized, the proposals are just that — proposals. Should the government act upon the proposals, there will be legislation associated with these actions and this legislation could have an effect on whether or not a report to the Legislative Assembly would be appropriate. The proposals, in my opinion, will not enable you to determine whether the executive government will become less accountable to the Legislative Assembly with regard to the administration of the various Crown corporations until the process is complete.

Therefore, I feel that these proposals should remain in the custody of the Crown corporations due to their confidential nature and because of the lack of formal action to implement the proposals at this date. Should you wish to discuss this matter further with Crown Management Board and the other Crown corporations as was mentioned in my memorandum to you of July 15, 1987, we would be most willing to do so.

W. B. Gibson

W. B. Gibson

c.c. Mr. D. Stankov
Mr. Garth C. Kennedy
Mr. Allan W. Wagar
Mr. Larry A. Kyle
Hon. Grant Hodgins
Mr. D. Gavin Koyl
Hon. Herb Swan
Mr. Jack Drew
Hon. Grant Devine
Hon. Graham Taylor
Mr. Murray Acton
Hon. J. Gary Lane, Q.C.
Hon. Eric Berntson
Hon. Jack Klein

APPENDIX V

Provincial Auditor Saskatchewan

1500 Chateau Tower
1920 Broad Street
Regina, Canada
S4P 3V7

(306) 787-6360

August 13, 1987.

Mr. W. B. Gibson,
President,
Crown Management Board,
2400 College Avenue,
Regina, Saskatchewan.
S4P 1C8

Dear Mr. Gibson:

Your letter of August 6, 1987 indicates a lack of understanding, on your part, as to the responsibilities and authority given to me by law.

In order to ensure that you are fully informed I wish to advise you as follows:

(1) As the Officer of the Legislative Assembly appointed specifically to assist the Members of the Legislative Assembly in its responsibility to hold the executive government accountable, I am charged with auditing or causing to be audited all public money and reporting the results of such audits to the Legislative Assembly.

(2) Where another auditor is involved in the audit of a crown agency, as the Legislative Assembly's auditor I must be involved at the planning stage of the audit to ensure that all of the audit requirements of the Legislative Assembly will be discharged.

(3) In order that I can appropriately plan the audit of public money, taking into account the actions of the executive government in reducing my resources to the point that I cannot fully discharge all of the audit requirements of the Legislative Assembly with those resources, I require the information requested in my letter of June 29, 1987. This information, along with other actions of the government will help me to fully consider whether or not a special report to the Legislative Assembly is required.

(4) I am entitled to receive any information that I deem necessary for the proper performance of my duties. If information requested is not forthcoming on a voluntary basis I have the authority of a commissioner under The Public Inquiries Act to obtain that information.

V-6

.....2

I must assume that this lack of understanding, on your part, of my responsibilities and authority has caused you to proceed to request proposals from accounting firms for the auditing of crown corporations, without contacting me to determine my audit requirements and also to now deny me access to the information that I have requested.

You mention in your memorandum that there will be legislation forthcoming which may affect the situation. However, I operate under the legislation presently in place which clearly defines my responsibilities and powers. I don't know what, if any, changes are presently contemplated but any amendment which removes my supervisory function over audits of public money as presently defined will severely limit the accountability of the executive government to the Legislative Assembly.

In summary, I urge you to reconsider your position and provide me with the information I requested on June 29, 1987. If I do not receive this information before September 1, 1987 I will assume that you do not intend to voluntarily comply with my request.

Yours truly,

W. G. Lutz,
Provincial Auditor.

/jv

c.c. Mr. D. Stankov
Mr. Garth C. Kennedy
Mr. Allan W. Wagar
Mr. Larry A. Kyle
The Honourable G. Hodgins
Mr. D. Gavin Koyl
The Honourable H. Swan
Mr. W. D. Farley
Mr. Jack Drew
The Honourable G. Devine
The Honourable G. Taylor
Mr. Murray Acton
The Honourable J. G. Lane, Q.C.
The Honourable E. Berntson
The Honourable J. Klein

APPENDIX V

Crown Management Board of Saskatchewan

Inter-office Memorandum

From: W. B. Gibson, President
Crown Management Board

Date: August 1987

To: W. G. Lutz
Provincial Auditor

File No.:

RECEIVED
AUG 3 1 1987
PROVINCIAL AUDITOR

Re: Audit Proposals

Further to your letter of August 13, 1987, we are not yet in a position to provide you with copies of the audit proposals that you have requested.

The Board of Directors of CMB will be discussing the merits of your request at its September meeting and I will undertake to advise you of the Board's decision after the meeting.

W. B. Gibson

cc:

Mr. D. Stankov
Mr. Garth C. Kennedy
Mr. Allan W. Wagar
Mr. Larry A. Kyle
Hon. Grant Hodgins
Mr. D. Gavin Koyl
Hon. Herb Swan
Mr. W.D. Farley
Mr. Jack Drew
Hon. Grant Devine
Hon. Graham Taylor
Mr. Murray Acton
Hon. J. Gary Lane, Q.C.
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